

Message Text

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C O N F I D E N T I A L TEHRAN 1421

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E.O. 11652: GDS

TAGS: ENRG, IR,OPEC

SUBJ: ENERGY: SHAH'S REACTION TO DEPARTMENT'S COMMENTS ON
WASHINGTON CONFERENCE

REF: STATE 32425

1. WITHIN 24 HOURS OF MY DELIVERING (ON FEBRUARY 19) COMMENTS TRANSMITTED REFTEL TO SHAH VIA COURT MINISTER ALAM, LATTER SUMMONED ME TO CONVEY SHAH'S RESPONSE WHICH CENTERED ON THE SENTENCE IN PARA 1 (D) OF REFTEL, "THERE WAS ALSO AGREEMENT THAT OIL PRICES ARE TOO HIGH." WHAT, ASKED THE SHAH, DOES CONFERENCE DEFINE TO BE "TOO HIGH." NIGERIA, HE CLAIMED, IS SELLING SOME OF ITS CRUDE AT DOLS22.60 WHILE ALGERIA SELLS AT DOLS14, WHICH IS HIGHER THAN GULF PRICE EVEN AFTER CONSIDERING ALGERIA'S MORE FAVORABLE GEOGRAPHICAL POSITION AND HIGHER QUALITY CRUDE. CANADA, HE SAID, HAS ADDED DOLS8 (SIC) TO OIL PRICE IN FORM OF TAXES. SHAH GAVE LONG LIST OF COMMODITIES IRAN IMPORTS -- CEMENT, PHOSPHATE, ROCK, IRON AND STEEL PRODUCTS, SUGAR, WHEAT, VEGETABLE OIL, COTTON, MEAT, PULP AND PAPER PRODUCTS, WOOD, PETROCHEMICAL PRODUCTS AND MANY OTHERS -- PRICES OF WHICH (IF THEY CAN BE OBTAINED AT ANY PRICE) HAVE INCREASED DRAMATICALLY, IN SOME CASES TWO TO FOUR TIMES AND MORE IN LAST YEAR. FURTHERMORE, SAID THE SHAH, AT ANY LEVEL BELOW THE PRESENT DOLS7 GOVERNMENT TAKE, IRAN'S PLANS FOR PLACING FUNDS WITH
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IMF AND IBRD AS WELL AS SOFT LOANS TO LDC'S WOULD BE JEOPARDIZED.

2. IT IS ABUNDANTLY CLEAR THAT THE SHAH IS DETERMINED TO USE

EVERY DEVICE AT HIS COMMAND TO BLOCK ANY REDUCTION OF CURRENT BASIC PERSIAN GULF POSTING OF DOLS11.651 FOR ARABIAN LIGHT CRUDE (DLS7 GOVERNMENT TAKE). HIS RECENT INTERVIEW IN THE WESTERN PRESS ARE AN EXAMPLE. EVERY PUBLIC COMMENT ABOUT REDUCING CRUDE OIL PRICES ELICITS AN ALMOST IMMEDIATE REACTION IN SOME FORM OR OTHER. THE SHAH OBVIOUSLY CONTINUES TO FEEL STRONGLY (A) THAT PRESENT PRICES ARE JUST, CONSIDERING THE SLOW INCREASE IN OIL PRICES IN THE FIFTIES AND SIXTIES, THE INFLATION THAT OCCURRED DURING THOSE YEARS, AND (B) THAT SOME, IF NOT ALL NON-PERSIAN GULF OPEC MEMBERS CONTINUE TO ENJOY A GREATER ADVANTAGE OVER GULF PRODUCERS THAN IS WARRANTED BY THEIR VARIOUS SPECIAL SITUATIONS.

3. WHEN ALAM HAD FINISHED CONVEYING THE SHAH'S VIEWS, I POINTED OUT TO HIM AGAIN THAT THE WHOLE POINT OF THE WASHINGTON CONFERENCE HAD BEEN TO PREPARE FOR PRODUCERS AND CONSUMERS TO SIT DOWN AND ATTEMPT TO SOLVE THIS WHOLE RANGE OF PROBLEMS. THE SHAH IS AWARE OF THIS, BUT HE IS NOT RUNNING ANY RISK THAT HIS POSITION ON PRICES SHOULD BE MISUNDERSTOOD OR THOUGHT TO BE WEAKENING. HE HAS APPARENTLY INSTRUCTED HIS MINISTER OF ECONOMY ANSARY TO TALK WITH ME ON THIS SAME SUBJECT, A SESSION WHICH WILL TAKE PLACE ON SATURDAY AFTER FOREIGN MINISTER SWARAN SINGH HAS LEFT TOWN.

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